

REPORT ON EXAMINATION
OF
HORIZON HEALTHCARE OF DELAWARE, INC.
AS OF
DECEMBER 31, 2003

State of Delaware



Department of Insurance

Dover, Delaware



I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2003 of the

HORIZON HEALTHCARE OF DELAWARE, INC.

is a true and correct copy of the document filed with this Department.

ATTEST BY: *Kenneth L. Miller*

DATE: 21ST JUNE 2005



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 21ST DAY OF JUNE 2005.

Matthew Denn

Insurance Commissioner


Deputy Insurance Commissioner

REPORT ON EXAMINATION
OF THE
HORIZON HEALTHCARE INSURANCE COMPANY OF DELAWARE
AS OF
December 31, 2003

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matthew Denn", written over a horizontal line.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 21ST day of JUNE, 2005.

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Horizon Healthcare of Delaware Inc.

March 9, 2005

Honorable Mathew Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19901

Dear Commissioner:

In compliance with instructions contained in Certificate of Authority No.4.028, an examination has been made of the affairs, financial condition and management of the

HORIZON HEALTHCARE OF DELAWARE INC.

hereinafter referred to as “HHD” or “Company”, incorporated under the laws of the State of Delaware.

The report of such examination is respectfully submitted herewith.

SCOPE OF EXAMINATION

The last examination was an organizational examination conducted as of May 31, 1998. This examination covers the subsequent period to December 31, 2003, and consisted of a general survey of the Company’s business policies and practices; management, any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

The format of this report is designed to explain the procedures employed on examination and the text will explain changes wherever made. If necessary, comments

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and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible officials during the course of the examination.

The general procedures of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards.

HISTORY

The Company was incorporated on June 14, 1995 as the Medigroup HMO Delaware Inc. The corporate title was changed to Medigroup of Delaware in December, 1995, and the present title was adopted in July, 1998. Since inception, the Company's ultimate parent has been Horizon Blue Cross Blue Shield of New Jersey (see following Section).

The Company wrote business as a health maintenance organization in 1999 and 2000 but has been inactive since 2001.

HOLDING COMPANY SYSTEM

At December 31, 2003, the Company was a wholly owned subsidiary of Horizon Healthcare Plan Holding Company Inc. The Company's ultimate parent is Horizon Healthcare Services Inc., which does business as Horizon Blue Cross Blue Shield of New Jersey. The ultimate parent reported the following financial information at December 31, 2003:

Horizon Healthcare of Delaware Inc.

Assets	\$1,840,472,000
Surplus	881,752,000
Premium Revenue (2003)	3,149,412,000
Net Income	142,168,000

Through a Management Services Agreement, the ultimate parent will provide, either directly or through its subsidiaries, all services necessary to operate the Company.

MANAGEMENT AND CONTROL

On the 2003 Annual Statement, HHD reported the following directors and officers:

Directors

William Marino
Christy Bell
Stephen Gordin M.D.

Officers

Stephen Gordin M.D.	President
Robert Meehan	Vice President
John Campbell	Secretary
William Frantel	Treasurer

CORPORATE RECORDS

The By-laws of the Company were reviewed as were the minutes provided. The following exceptions were noted:

No minutes were provided for Stockholder meetings and no minutes were provided for meetings of the Board held after December 12, 2000.

The Company's By-laws call for an annual stockholder meeting and a meeting of the Board, immediately after the annual stockholder meeting, to elect officers.

The examination cannot verify that any stockholder meetings were held and cannot verify that Board meetings were held after December 12, 2000. The election of officers and directors after year end 2000 cannot be verified.

As noted in the Territory and Plan of Operation section of this report, Company management informed the Insurance Department in 2000 of the intention to surrender HHD's Certificate of Authority. Subsequently, management decided to retain the Certificate of Authority. There is no evidence this latter decision was discussed by the Board.

The Board also did not approve investment transactions as required by Section 1304 of the Insurance Code, and there is no evidence the Company notified the Department of changes in officers and directors as required by Section 4919 of the Code.

It is recommended the Company comply with its By-laws and hold annual meetings of its stockholders and Board of Directors.

It is recommended the Company supply minutes for all actions or meetings of the stockholders.

It is recommended the Company's Board of Directors approve investment transactions as required by Section 1304 of the Insurance Code.

It is recommended that all important matters affecting the Company be discussed before the Board of Directors.

It is recommended that the Company promptly notify the Insurance Department of changes in the officers and directors as required by Section 4919 of the Insurance Code.

GROWTH OF COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the five preceding years:

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Capital and Surplus</u>	<u>Net Premiums Written</u>	<u>Net Income</u>
1999	\$1,611,729	\$ 811,701	\$576,458	\$(1,335,850)
2000	1,565,356	1,309,007	458,779	(648,018)
2001	1,467,513	1,306,515	0	(3,282)
2002	1,449,060	1,291,228	0	(15,286)
2003	1,442,861	1,270,339	0	(20,890)

The Company wrote health insurance business in 1999 and 2000 but has been inactive since 2001. All current income is derived from investments.

TERRITORY AND PLAN OF OPERATIONS

The Company received a Certificate of Authority from the Delaware Insurance Department to operate as a health maintenance organization on July 1, 1998. The Company is only licensed in Delaware.

In 1999, the Company began writing business but stopped in 2000 and withdrew from the health insurance market in Delaware. The Company cannot re-enter the Delaware market for five (5) after its withdrawal. In 2001 and 2002, Company management conveyed to the Delaware Insurance Department the intention of surrendering the Company's Certificate of Authority. Subsequently, however, management decided to retain the Certificate of Authority. Because of the deficiencies in the minutes provided to the examination, (See the Corporate Records section of this report), the Board of Directors has provided no direction as to the future plans for HHD.

FINANCIAL STATEMENTS

The Company's financial position on December 31, 2003 and the results of operations for 2003 are presented in the following statements:

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Notes</u>
Cash and short-term investments	\$1,435,875		\$1,435,875	1
Investment income due and accrued	1,127		1,127	
Current federal income tax recoverable	<u>5,859</u>		<u>5,859</u>	
 TOTALS	 <u>\$1,442,861</u>		 <u>\$1,442,861</u>	

LIABILITIES, SURPLUS AND OTHER FUNDS

		Notes
Claims unpaid	\$127,122	
Unpaid claims adjustment expenses	6,210	
General expenses due and accrued	25,000	
Amounts due to parent, subsidiaries and affiliates	<u>14,190</u>	
 Total liabilities	 <u>\$172,522</u>	
Common capital stock	\$300,000	
Gross paid in and contributed surplus	3,200,000	
Unassigned funds (surplus)	<u>(2,229,661)</u>	
 Capital and Surplus	 <u>\$1,270,339</u>	
 TOTAL	 <u>\$1,442,861</u>	

SUMMARY OF OPERATIONS

Premium and annuity considerations	0
Net investment income	<u>\$15,033</u>
Total	<u>\$15,033</u>
General insurance expenses	<u>41,752</u>
Total	<u>\$41,752</u>
Net gain from operations	\$(26,719)
Federal income taxes incurred	<u>\$(5,829)</u>
NET INCOME	<u>\$(20,890)</u>

CAPITAL AND SURPLUS ACCOUNT

Capital and Surplus, December 31, 2002	\$1,291,229
Net Income	\$(20,890)
Change in Capital and Surplus for the year	<u>\$(20,890)</u>
Capital and Surplus, December 31, 2003	<u>\$1,270,339</u>

SCHEDULE OF EXAMINATION ADJUSTMENTS

The examination will propose no financial adjustments.

NOTES TO THE FINANCIAL STATEMENTS

Note #1 Cash and Short-Term Investments.

The Company reported the amount of \$1,435,875 for the above captioned asset on the 2003 Annual Statement. For mutual fund assets of \$1,333,864, the Company supplied a custodian statement from TreauryPoint.com. After requesting a copy of the

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custodian agreement, the examination was provided with an unsigned “trading agreement” that disclosed the following:

TreasuryPoint.com is an on-line trading website managed by SEI Investments Distribution Company. An affiliated entity, SEI Private Trust Company provides record-keeping and custodian services.

As per the NAIC Financial Conditioners Handbook, the examination can only accept a custodian statement from a regulated bank or trust company. In addition, there must be in place an executed custodian agreement that contains the safeguard language recommended by the NAIC, and the custodian must provide a Report on Internal Controls.

It is recommended the Company engage a custodian that is a regulated bank or trust company. In addition, the Company should obtain a custodian agreement that contains the NAIC recommended safeguard language and the custodian should provide a Report on Internal Controls.

STATUS OF PREVIOUS EXAMINATION RECOMMENDATIONS

The previous organizational examination conducted as of May 31, 1998 made no recommendations.

RECOMMENDATIONS

The Company’s attention is directed to the following:

- It is recommended the Company comply with its By-Laws and hold annual meetings of its stockholders and Board of Directors.
- It is recommended the Company supply minutes for all actions or meetings of the stockholders.

- It is recommended the Company's Board of Directors approve investment transactions, as required by Section 1304 of the Insurance Code.
- It is recommended that all important matters affecting the Company be discussed before the Board of Directors.
- It is recommended that the Company promptly notify the Insurance Department of changes in the officers and directors as required by Section 4919 of the Insurance Code.

(Note: All of the above recommendations can be found in the Corporate Records Section of this report, page 4)

It is recommended the Company engage a custodian that is a regulated bank or trust company. In addition, the Company should obtain a custodian agreement that contains the NAIC recommended safeguard language and the custodian should provide a Report on Internal Controls. (See Notes to the Financial Statement, page 8)

SUMMARY COMMENTS

The following items of significance were noted during the examination:

HHD is licensed as a health maintenance organization in the State of Delaware only.

The Company's ultimate parent is Horizon Healthcare Services Inc. which does business as Horizon Blue Cross Blue Shield of New Jersey.

HHD wrote health insurance in 1999 and 2000 but then withdrew from the Delaware market and has been inactive since 2001.

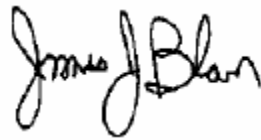
CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>Current Examination</u>	<u>1998 Examination</u>	<u>Changes Increases (Decreases)</u>
Assets	\$1,442,861	\$2,500,000	(\$1,057,139)
Liabilities	172,522	10,000	162,522
Capital and Surplus	1,270,339	2,490,000	(1,219,661)

The examination was conducted by the undersigned.

Respectfully submitted,



James J. Blair Jr., CPA, CFE
Supervisor
Insurance Department
State of Delaware